

This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS SECTION 01 OF 06 TEL AVIV 006971

SIPDIS

DEPT FOR INL AND NEA/IPA
JUSTICE FOR OIA AND AFMLS
TREASURY FOR FINCEN

E.O. 12958: N/A

TAGS: [SNAR](#) [KSEP](#) [KTFN](#) [IS](#) [ISRAELI](#) [SOCIETY](#) [COUNTERTERRORISM](#)
SUBJECT: 2005-2006 INTERNATIONAL NARCOTICS CONTROL STRATEGY
REPORT (INCSR) PART II, MONEY LAUNDERING AND FINANCIAL
CRIMES

REF: 210346

General Questions

1. Israel is not a regional financial center like Hong Kong or Switzerland due to a lack of financial activity with its neighboring countries. Israel's financial activity is mainly conducted with the financial markets of the U.S. and Europe, and to a lesser extent with Asia. Less than a quarter of all Israeli money laundering or terrorist financing seizures are related to narcotics proceeds. The majority of the seizures are related to fraud, theft, embezzlement, and currency-services providers' legislative offenses. In 2005, the most significant criminal activities that were investigated were related to intentionally false reporting to authorities on property transactions.

2. The Israeli National Police (INP) has no indication of an increase in financial crime relative to previous years. The most significant black market for smuggled goods in Israel is the black market for cigarettes but there is no specific information that it is significantly funded by narcotics proceeds.

3. It is assumed that money laundering occurs in all types of financial institutions, especially currency-services providers. Offshore centers are more frequently associated with upper echelon transnational criminals, the use of banks are usual in both domestic and international cases, and the use of non-bank financial systems are more regularly identified in domestic-oriented cases. In the past year, the courts in Israel have convicted several currency-services providers for violating the obligation to register with the Registrar of Currency Services. In addition, several criminal investigations have been conducted against other currency-services providers, some of which have resulted with money laundering indictments, which are still pending. Also, several currency-services providers have been sanctioned by the Sanctions Committee for non-compliance with anti-money laundering regulations. The government and its senior officials do not encourage, facilitate, or engage in money laundering. The INP has no specific knowledge of a significant U.S. connection to Israel-related drug trafficking proceeds.

Law and Regulations to Prevent Money Laundering/Terrorist
Financing

4. Money laundering is a criminal offense in Israel. The Prohibition on Money Laundering Law (PMLL) 5760-2000 proscribes money laundering as a criminal offense, punishable by up to ten years in prison and heavy fines. The PMLL is very broad and does not only apply to drug-related money laundering. It covers other offenses such as illegal arms trading, smuggling, gambling, bribery, murder, forgery, and theft.

Laundering and Financial Crime

5. Banks and other financial institutions are required to know and record the identity of customers engaging in significant transactions, including the recording of large currency transactions, as well as certain non-cash transactions. In addition, banks and other financial institutions are required to report to the Israel Money Laundering and Terror Financing Prohibition Authority (IMPA) -- Israel's Financial Intelligence Unit (FIU) -- the identity of customers engaging in certain large currency transactions at thresholds and in activities perceived by the financial institution as unusual. The IMPA does not have criminal investigative or regulatory responsibilities. Comprehensive legislation and regulations have been put in place to ensure that banks and other financial institutions are required to maintain for an adequate amount of time records necessary to

reconstruct significant transactions through financial institutions in order to be able to respond quickly to information requests from appropriate government authorities in narcotic-related and other money laundering or terrorist financing cases. Note: The Banking Corporations' Anti-Money Laundering Order indicates that a banking corporation shall keep the documents attesting to the instruction to the banking corporation to carry out a transaction that was reported to the IMPA for a period of at least seven years from the date the instruction was given. End Note.

16. The PMLL requires financial institutions to report "unusual transactions" to IMPA as soon as possible under the circumstances -- unusual transactions is loosely defined and is used so that the IMPA will receive reports even when the financial institution is unable to link the unusual transaction with money laundering. In addition to banking corporations, money laundering controls apply to the following: members of the stock exchange, portfolio managers, insurers or insurance agents, provident funds and companies managing a provident fund, providers of currency services and the postal bank. These institutions are required to report all domestic and international currency transactions above a fixed amount to the IMPA. The threshold amount to be reported varies according to the specific type of transaction made, but in general it is an amount equal to at least 50,000 New Israeli Shekels (NIS), approximately 10,000 dollars, or more. At this time, the PMLL does not apply to lawyers and accountants. Casinos are illegal in Israel. Bankers and others are protected by law with respect to their cooperation with law enforcement entities. Israel does not have legislation that prevents disclosure of client and ownership information by domestic and offshore financial services companies to bank supervisors and law enforcement authorities. There have been no negative ramifications or objections by financial or political groups to the introduction of regulations and laws related to money laundering and terrorist financing.

17. The PMLL requires the declaration of all transfers of currency (including cash, travelers' checks and cashier checks) into or out of Israel for sums above 80,000 NIS, approximately 17,200 dollars. This applies to any person entering or leaving Israel and to any person bringing monies into or taking monies out of Israel by mail or by any other method, including cash couriers. Violation of the obligation to declare is an offense punishable by up to 6 months imprisonment or a fine of 202,000 NIS, approximately 43,400 dollars, or ten times the amount which was not declared, whichever is higher. Alternatively, administrative financial sanctions of 101,000 NIS, approximately 21,700 dollars, or five times the amount which was not declared, may be imposed.

18. In 2005, 6,005 suspicious transaction reports were received by the IMPA. During this period the IMPA disseminated several hundred intelligence reports to law enforcement agencies in response to requests. During 2005, twelve different investigation cases yielded indictments (some of which yielded multiple indictments) and approximately 75 million dollars were seized by the authorities. In another case, the prosecution has indicted a number of bank officials for money laundering offenses for violation of the obligation to report unusual transactions and for advising their customers on ways of avoiding reporting to IMPA. There are also indictments against a number of providers of currency services for similar offenses.

19. The legislative regime criminalizing the financing of terrorism includes provisions of the Defense Regulations (State of Emergency) (1945), the Prevention of Terrorism Ordinance (1948) and the Penal Law (1977), and the PMLL. On December 29, 2004, the Israeli Parliament (the Knesset) adopted the Prohibition on Terrorist Financing Law 5765-2004 which is geared to further modernize and enhance Israel's ability to combat terrorist financing and to cooperate with other countries on such matters. This law went into effect in August 2005.

10. Israel has broad and comprehensive legislation allowing for identifying, freezing, seizing, and forfeiting terrorist finance-related assets. This includes:

--Legislation generally providing for the seizure of items which were used, or which were about to be used, in the commission of an offense, or given as payment for its commission.

--Legislation specifically providing for the confiscation of terrorist finance-related property: The Prevention of Terrorism Ordinance (1948) and the Defense Regulations (State of Emergency) (1945) contain specific provisions for identifying, freezing, seizing, and forfeiting terrorist finance-related assets. The Prohibition on Terrorist Financing Law provides additional tools for such actions. This law also includes specific references to acts of terrorism that have no connection to Israel and further enhances Israel's ability to provide assistance to other countries in combating the financing of terrorism. Together,

these laws create a comprehensive and tight legal regime providing for a range of legal and administrative measures that target terrorist finance-related assets.
--The Israeli PMLL provides for the freezing, seizure and confiscation of funds, both in criminal and civil proceedings, in any case of money laundering which can include terrorist finance related property. Terrorist financing offenses are defined as predicate offenses under the law.

11. Israel has implemented its obligations regarding the Taliban regime. The Taliban regime was never recognized by Israel as the legitimate government of Afghanistan. Due to the declarations of Taliban leaders on the regime's attitude towards Israel and their support of Al Qaida/Bin Laden, the Taliban has been considered an "enemy" under the Trade with the Enemy Ordinance, 1939. The Ordinance imposes mandatory freezing of enemy assets and prohibits transactions with the enemy. No assets connected to the Taliban have been found in Israel. No assets related to Usama bin Laden or the Al-Qaida organization, and individuals or entities associated with them, have been detected in Israel.

12. The PMLL mandates the registration of providers of currency services through the Providers of Currency Services Registrar at the Ministry of Finance. According to the Law, the right to provide currency services is conditioned on the following:

--The applicant is either an Israeli citizen or a resident of Israel and is at least 18 years old; If the applicant is a corporation incorporated in Israel, at least one office holder of the corporation is an adult and an Israeli citizen or resident of Israel; if the applicant is a corporation not incorporated in Israel, it must be incorporated in a state where there is legislation prohibiting money laundering and the corporation must be legally registered in Israel.
--The applicant has not been convicted -- either in Israel or in another country -- of a money laundering offense or of an offense which, in the Registrar's opinion, due to its nature, severity or circumstances, renders him unsuitable for serving as a provider of currency services; where the applicant is a corporation, an office holder of the corporation has not been convicted of such an offense. A person who engaged in the provision of currency services without being registered is liable to one year of imprisonment or a fine of approximately 600,000 NIS, approximately 129,000 dollars.

13. The PMLL sets the following obligations on providers of currency services:

--The obligation to identify recipients of services (recording and authentication of identity particulars).
--The obligation to retain identity documentation and documents attesting to the instruction to carry out transactions that were reported to the IMPA, for a period of at least seven years.
--The obligation to report to IMPA certain transactions specified by size and type.
--The obligation to report to IMPA transactions perceived by the provider of currency services as unusual.

14. In addition to these legislative and regulatory steps, the INP set the closure of unregistered financial services providers as an operational objective for 2005, and has raided several such locations. The INP and the Registrar for Providers of Currency Services maintain a high level of coordination, routinely exchange information and have conducted multiple joint enforcement actions.

15. Israel's effort to combat terrorist financing focus, inter alia, on the misuse charitable and non-profit entities as conduits for the financing of terrorism. Israel is one of the leading countries in this area. The State of Israel acts to thwart such misuse as part of its daily war against the terrorism endangering the lives of its citizens and as part of the global war against terrorism. Israel collaborates with European and other countries in order to identify and close charity foundations engaging in terrorist financing that are established in their territories, and continuously takes independent action by shutting down and confiscating property of charity foundations declared illegal. Israel is a party to the International Convention for the Suppression of the Financing of Terrorism. Israel signed the convention on July 11, 2000, and ratified it on February 10, 2003.

----- Offshore Financial Centers -----

16. Israel is not considered an offshore financial center. There is no legal infrastructure for offshore activity in Israel.

----- Free Trade Zones -----

17. There are no free trade zones in Israel.

International Cooperation

18. Israel has laws that ensure the availability of adequate records in connection with narcotics-related, terrorism, terrorist financing or other investigations and proceedings to appropriate USG personnel and to those of other governments. Israel grants legal assistance pursuant to the International Legal Assistance Law, 5758-1998. The Law allows the provision of legal assistance in both civil and criminal matters, irrespective of whether Israel has a specific mutual legal assistance agreement with the requesting state and does not require double criminality. In addition to requests for legal assistance, the PMLL specifically permits IMPA to transmit information from its database to foreign authorities of its kind.

19. Israel is a party to the United Nations Conventions Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances. Israel signed the Convention on December 20, 1988, and ratified it on January 3, 2002. The Convention entered into force for Israel on June 18, 2002. Israel is a party to the International Convention for the Suppression of the Financing of Terrorism. Israel signed the Convention on July 11, 2000, and ratified it on February 10, 2003. Israel was among the first countries that raised, in the international arena, the need to tackle the problem of the financing of terrorism. Israel lent its support to this Convention during all the stages of its deliberation. Israel signed the International Convention Against Transnational Organized Crime on December 13, 2000, and hopes to very shortly complete the process of its ratification. In June 2003, the Knesset adopted the Combating Criminal Organizations Law, which includes comprehensive measures with regard to organized crime. On November 29, 2005 Israel signed the United Nations Convention Against Corruption.

20. According to Israeli law, legal assistance in criminal matters may be granted even if there is not a bilateral agreement between Israel and the other country. Israel fully recognizes, however, that such treaties facilitate working relationships that allow such assistance to be granted in an effective, efficient and expeditious manner. Israel has entered into a wide number of treaty arrangements to enable it to render mutual legal assistance in an effective manner in criminal cases, such as the Convention on Mutual Legal Assistance in Criminal Matters with the U.S., and the Council of Europe Treaty on Mutual Legal Assistance in Criminal Matters. Israel is in the final stages of domestic approval for Israel's accession to the Second Additional Protocol to the Council of Europe Convention. Furthermore, Israel is a member of international conventions that provide specific provisions for providing legal assistance in matters regarding serious crimes including the financial aspects of those crimes. These include the 1988 Vienna Convention on the Illicit Traffic in Narcotic Drugs and the 1999 International Convention on the Suppression of Terrorist Financing. Israel also hopes to very shortly complete the process of ratifying the 2000 Palermo Convention on Transnational Organized Crime that it signed on December 13, 2000. Israel has bilateral agreements on mutual assistance in customs matters with the United States, the EC, Mexico, Italy, the Netherlands, Poland, the Czech Republic, Cyprus, Latvia, Slovenia, Turkey, Uzbekistan, Ukraine, Kazakhstan, Russia, China, India, Korea, and Moldova. The Israel Securities Authority (ISA) maintains ongoing, formal and informal, relationships with investigative bodies in other countries. The ISA signed a Memorandum of Understanding (MOU) with the U.S. Securities and Exchange Commission on February 13, 1996. In 2005, the ISA signed bilateral MOUs with the securities authorities of the Netherlands, Greece, Republic of South Africa, Cyprus, Australia, and New Zealand. The INP regularly exchanges intelligence with other law enforcement agencies around the world regarding individuals and/or institutions involved in money laundering. Such exchanges are done either directly or via INP liaison officers abroad. Israel is also a member of INTERPOL, and exchanges information with other law enforcement authorities through the INTERPOL unit in the INP. In addition, in 2005, the IMPA signed MOUs with South Africa, Luxembourg, Panama, Peru, Canada, and Russia. Furthermore, negotiations were held on MOUs with Ukraine, Argentina, Aruba, Guatemala, San Marino, Paraguay, and the Czech Republic.

21. Israel has entered into a wide number of treaty arrangements to enable it to render mutual legal assistance in an effective manner in criminal cases. These treaties include bilateral treaties such as its Convention on Mutual Legal Assistance in Criminal Matters with the USG. Israel also has a bilateral agreement on mutual assistance in customs matters with the USG. The INP routinely exchange information regarding narcotics and other criminal investigations with the FBI, DEA, and U.S. Customs through their regional liaison offices, as well as through the INP

Liaison Office in Washington, D.C. The exchange of information for intelligence purposes is free-flowing and executed in real-time. During 2005, Israel provided legal assistance to the United States in the federal prosecution in the United States of Pavel Lazarenko, the former Prime Minister of the Ukraine, on charges of money laundering related to widespread corruption committed by him and his associates in the Ukraine. Lazarenko was convicted and sentenced in federal court in San Francisco of money laundering offenses. Also, Israel provided extensive legal assistance to U.S. officials in the federal prosecution of Sami Al-Arian on several charges of terrorism-conspiracy. Other examples include the close legal assistance provided by Israel in the prosecution in the U.S. of Muhammad Salah on charges of terrorist financing; in the prosecution of Jessy Maali on charges of terrorist financing and money laundering; and in the prosecution of Gabi Ben-Haroush on charges of money laundering. The U.S. and Israel recently successfully negotiated extensive amendments to Israel's Extradition Treaty with the USG. An agreement regarding such amendments was initialed by representatives of the United States and Israel and the process of achieving necessary government approvals of the amendments in the United States and Israel are underway. The amended treaty dispenses with the list of specific extraditable offenses of the original treaty and permits extradition with respect to any offense punishable by a penalty of at least one year imprisonment. The practical import of this is that Israel will now be able to extradite to the United States for money laundering and other crimes that did not exist on the statute books when the original treaty went into effect in 1963. This is expected to have a major deterrent effect on money laundering and to permit the apprehension of money launderers and their successful prosecution. There have been no instances of refusals to cooperate with foreign governments.

Asset Forfeiture and Seizure Legislation

122. Israel has established systems for identifying, tracing, freezing, seizing and forfeiting narcotics-related assets as well as assets derived from or intended for other serious crimes including the funding of terrorism. Identification and tracing of such assets is part of the ongoing function of the Israeli intelligence authorities and IMPA, who are equipped with the necessary powers to accomplish their mission. The International Legal Assistance Law allows the Minister of Justice, after consultation with the Minister of Finance, to order that the property forfeited at the request of another country, or part of it, or its equivalent, be transferred to that country.

123. According to the Ministry of Justice, Israel constantly reviews its laws and regulations to ensure that they effectively and appropriately deal with money laundering and terrorist financing. Modifications, updates, and amendments are being considered and, when required, adopted. In 2003, the Knesset adopted the Combating Criminal Organizations Law. In 2004, it adopted the Prohibition on Terrorist Financing Law.

124. Israeli law allows for seizure and forfeiture of a wide range of assets including instruments of crime, immovable and movable property, bank accounts, monies, and rights. Legitimate businesses can be seized if used to launder drug money or other criminal proceeds. Israelilaw establishes an asset forfeiture fund into which forfeited property with respect to narcotic related offenses and money laundering offenses is deposited. This fund is administered by the Administrator General and is used to carry out the functions of the Drug Control Authority and the IMPA among other things. Property forfeited with respect to terrorist financing offenses is transferred to the Ministry of Finance. The law allows for both civil and criminal forfeiture. The government enforces existing drug-related asset seizure and forfeiture laws.

125. The INP is the main body responsible for tracing and seizing assets. In addition, the PMLL grants limited seizure powers to the Department of Customs and VAT. Forfeiture orders and interim orders (freezing) are issued by the courts. There is no time limit ascribed to the action of seizure or interim forfeiture if such an order is granted after the filing of an indictment. If the seizure or interim forfeiture occurs prior to an indictment being filed, the assets must be released after a certain period of time unless an indictment is filed during the period.

126. The INP, the Administrator General, and, where appropriate, the Department of Customs and VAT, have adequate powers and resources to trace and seize assets, and are increasing their resources to adapt to the changing times. Each police unit holds a forfeiture officer who is in charge of facilitating the tracing and seizing of assets. In addition, the police have two to five full-time anti-money

laundering enforcement officers in each of the five districts, "Central Intelligence Unit" responsible for dealing with most of the serious predicate offenses at the district level, and criminal organizations, as well as anti-money laundering officers in the three national crime units responsible for transnational organized crime and serious white collar offenses. Israel can freeze assets without undue delay.

127. In 2005, the INP seized approximately 75 million dollars in suspected criminal assets. Total seizures for each of the past three years were more or less the same, 23 to 27 million dollars per year.

128. Israel encourages and fully cooperates with efforts by the U.S. or other countries to trace or seize assets. The INP, as well as other relevant government agencies, appreciate and make use of tips from other country enforcement officials regarding the flow of drug-derived assets. Moreover, the police have on their own account approached the FBI and U.S. Customs Department requesting transfer of information they may hold regarding money laundering and drug trafficking proceeds. Israel is constantly engaged in efforts to improve enhancement of mutual legal assistance. There has been no noted public response to government efforts to seize and/or forfeit assets. The banking community cooperates with enforcement efforts to trace funds and seize bank accounts.

Visit Embassy Tel Aviv's Classified Website:
<http://www.state.sgov.gov/p/nea/telaviv>

You can also access this site through the State Department's Classified SIPRNET website.

CRETZ